The American Prospect Volume 5, Issue 17. March 21, 1994.

The Global Hiring Hall

Why We Need Worldwide Labor Standards

Richard Rothstein

Global labor standards may now become a mainstream public issue. NAFTA represents the first time a major trade agreement secures labor rights, albeit minimally. President Clinton may attend the 75th anniversary meeting of the International Labor Organization (ILO) in Geneva this June—a meeting that will consider endorsing the right of industrialized nations to bar imports from nations with little "social progress." Clinton and Jacques Delors, president of the European Union, have suggested that labor and social standards could be the subject of the next round of trade negotiations.

In a world of widespread poverty, high unemployment and integrated markets, global labor standards are necessary to keep the poverty of poor nations from depressing the decent living standards of rich ones. When Third World workers' purchasing power lags their output, they can't afford to consume the fruits of their own production or to buy many exports from the industrial nations. As a result, the employment security and living standards of workers everywhere are dragged down together. For example, Malaysia, with 85,000 electronics workers the world's largest exporter of semiconductors, had no minimum wage law but permitted unionization—except in its electronics sector. So multinational corporations like Texas Instruments, Intel, and National Semiconductor set up shop there to pay young women 45 cents an hour for unskilled production work. The Malaysian American Electronics Industry Society declared that member firms would discontinue investments if unions were authorized. Malaysia found it had little ability to impose standards within its borders, lest investors relocate capital (and employment) to more pliable nations.

Mexico resisted a NAFTA side agreement in part because higher labor costs in Mexico could displace investment and jobs to Guatemala, the Caribbean, and Asia. Competition from nations with lower standards are a permanent brake on any nation's attempt to raise standards (and increase labor costs). Thus, international labor standards must be universal.

In principle, a new trade round could condition free entry to the world's markets on observance of minimum social standards. As a first step, the United States could insist on acceptable minima as the price of easy access to our domestic market.

Good places to begin are child labor and minimum wages. Most labor-rights advocates agree that no child younger than 15 should do factory work. But in the absence of global standards, the use of child labor in some Third World export industries (like garment or toy assembly) is tempting because children of desperately poor families will work for even less than the adult subsistence wage. When children are kept in factories, not schools, developing nations undermine their own growth potential by denying themselves a better educated work force. Child labor impoverishes not only present but future generations.

SUFFER THE CHILDREN

Unfortunately, industrial child labor may now be increasing as developing nations compete for export plants with offers of lower and lower labor costs.

- A *Wall Street Journal* story in 1991 reported that "Underage Laborers Fill Mexican Factories." Featured was 12- year-old Vicente Guerrero, first-ranked in his school but forced to drop out for a $34-a-week shoe factory job where he was poisoned by fumes. Embarrassed by publicity, the firm fired Vicente (with 20 child coworkers), and the *Journal* established a scholarship fund to keep him in school. But some 5 million to 10 million other Mexican children younger than 14 continue to work illegally.

- The National Consumers League conducts Christmas boycotts of toys made in China. In China's special economic zones, girls as young as 10 sleep in company dormitories and work 14-hour days for as little as $10 a month. Under pressure, China prohibited employment of children in export industries, but enforcement is impractical. When Chinese officials targeted child labor in one 2,600-worker factory, the manager for American toy contractors threatened to close and move to Thailand.

- Wal-Mart contracted for apparel production in a Bangladesh plant where 300 children younger than 13 worked up to 20 hours a day and slept on factory floors, to earn $7.50 monthly. In response to a 1992 NBC exposé, Wal-Mart promised a "vendor certification" plan to eliminate child labor. Yet while Bangladesh has prohibited child labor since British colonial times, apparel factories have now begun to snub the law with impunity. According to official Bangladesh statistics, labor force participation of 10- to 14-year-old girls jumped from 4 percent in 1981 to 15 percent in 1986, as apparel exports doubled annually.

- Indonesia in 1949 prohibited children under 15 from working. But in 1987, to attract more investment, the country abolished this prohibition for "children forced to work for social or economic reasons." By 1991, there were 2.8 million Indonesian children "bonded" to factories—that is, mortgaged by parents to employers. U.S. Trade Representative Mickey Kantor recently announced that Indonesia would be given six months to improve worker-rights guarantees or lose duty-free preferences in the U.S. market.

- West German consumer groups now boycott carpets from South Asia. There, children under 14 are mortgaged to factories where accumulating bills for food, lodging, and drugs (amphetamines dispensed to sustain round-the-clock work) makes redemption of the mortgages impossible. According to the ILO, about half the children in Pakistan's export carpet industry die from malnutrition and disease before the age of 12. Nepal had no international carpet industry 30 years ago; by 1988, nearly 600 factories exported carpets. Children under 15 comprise two-thirds of Nepal's industrial work force.

- Indian manufacturers, reacting to boycotts, recently adopted a label to certify that carpets were not made with child labor. But without assurance of international uniformity, self-monitoring can't succeed. Carpets are now India's biggest export earner, and the industry employs 300,000 child laborers. In Uttar Pradesh, hub of the industry, no employer has yet been prosecuted for a child labor violation despite adequate legislation. India, Pakistan, and Nepal recall how their industries emerged. In 1970 the Shah of Iran banned child labor, prompting the industry's relocation to South Asia. The Shah's ban succeeded only in substituting Asian child servitude for that of Iranian children. Labor standards can't work unless they are universal.

REVERSING THE SPIRAL

Global agreements or U.S. trade law could increase the pressure to ban child labor. Senator Tom Harkin and Congressman George Brown have introduced a Child Labor Deterrence Act to prohibit the import of products manufactured by workers under the age of 15. But child labor prohibitions cannot themselves stem downwardly spiraling earnings and living standards. With surplus labor pools in most developing countries, and mobile technology and capital, manufacturers need not pass fruits of higher productivity on to adult workers either. Rather, if employees demand rising compensation (either by trade union organization or wage regulation), investors can relocate to equally productive nations where wage demands are less forceful. In addition to international prohibition of child labor, international wage regulation is also needed.

The creation of internationally regulated wage floors is more difficult than regulation of child labor, yet the task may be less difficult than it first appears. There is already adequate U.S. legislation, though it has not been implemented. Former Congressman Donald Pease successfully sponsored amendments to 1980s trade laws, requiring U.S. imports to be manufactured with respect for "internationally recognized worker rights." Pease amendments generally require developing nations to assure the right of association, the right to bargain collectively, protections against forced labor, a minimum age for employment of children, and acceptable conditions regarding minimum wages, hours of work, and health and safety. For "acceptable conditions regarding minimum wages," Congress proposed that definitions vary with nations' levels of economic development.

Pease amendments are included in the Caribbean Basin Initiative, the Generalized

System of Preferences, the Overseas Private Investment Corporation, Section 301 of the Trade Act, instructions for U.S.-designated executive directors of the international financial institutions like the World Bank, and foreign aid appropriations. However, enforcement has been weak. The United States did require several Caribbean Basin countries to improve minimum wage enforcement. Haiti, for instance, had to begin weekly radio publicity about labor code protections and commit that workers reporting minimum wage violations would not be punished. But the Reagan administration mostly used worker rights as a political tool, denying, for example, duty-free status to Romania and Nicaragua, while ignoring labor-rights violations by major developing nation exporters. The warning just given Indonesia is one of the strongest yet, though like most enforcement actions, it focuses primarily on denials of the right to organize, with little reference to failures to enforce acceptable minimum standards.

In effect, the Pease amendments made "acceptable minimum wages" U.S. policy, but the executive branch has declined to propose regulations defining acceptable rates consistent with nations' development levels. But the Pease amendments can be made into meaningful policy.

Consider the example of the Bangladesh garment industry. A mid-1980s study found that U.S. workers manufactured a men's shirt in 14 person-minutes, while in Bangladesh, one men's shirt included 25 minutes of labor. U.S. apparel workers' earnings averaged $7.53 per hour, while hourly Bangladesh garment wages averaged 25 cents. Thus while the U.S. industry enjoyed nearly a 2 to 1 productivity advantage, Bangladesh had a 30 to 1 wage advantage. A shirt's unit labor cost was $1.76 in the U.S. but only 10 cents in Bangladesh.

If capital were not so much more mobile than labor, organized Bangladesh garment workers could demand wages approaching $4.22 per hour, which, based on their productivity, would generate a comparable Bangladesh shirt unit labor cost of $1.76 (This simplified illustration leaves aside other cost differences like shipping, real estate, or power.) So if Bangladesh labor could freely compete against U.S. garment workers, wages would be higher and adults could displace children in shirtmaking. Bangladesh now fears to use its growing productivity to improve its labor standards, however, because if it attempted to do so, investors might flee the country.

Minimum wages are broadly related to average wages. In low-wage, labor-intensive industries, minimum rates influence average wages directly. This is not only because many workers are directly affected by minima but because minimum increases tend to push up other wages as employers preserve intra-firm differentials, raising rates of higher paid workers. Usually, when minima are raised because of legal requirements, both here and abroad, there is an initial period of wage compression before differentials are gradually reestablished. For similar reasons, wage averages in higher paid industries may be affected indirectly by minimum increases.

At the time of our mid-1980s Bangladesh illustration, the U.S. minimum wage was $3.35, 44 percent of average apparel wages. If policy postulated a similar relationship between minimum and average Bangladesh apparel pay, an acceptable minimum for Bangladesh's garment industry should have been $1.88 (44 percent of $4.22), were wages taken entirely out of competition.

So far, this $1.88 "acceptable" minimum wage calculation is a consequence only of relative labor productivity—it makes no adjustment for Bangladesh's early economic development stage. But such an adjustment is needed to satisfy the Pease amendments' essential concern that minimum standards be appropriate to nations' income levels. For this purpose, policy could broadly categorize Third World nations by income bands, with poorer nations granted greater concessions.

For example, nations with per capita GNP between $2,500 and $5,000 (like Mexico) might be granted a 20 percent concession from minimum wage rates calculated from leveled unit labor costs alone. Nations with per capital GNP from $1,000 to $2,500 (like Jamaica or Poland) might be granted a 40 percent concession; from $500 to $1,000 (like Indonesia or the Philippines) a 60 percent concession; and countries with less than $500 (like Bangladesh) might be given an 80 percent concession, expecting Bangladesh's minimum wage to be only 20 percent of the $1.88 needed to level unit labor costs. If, then, the additional step were taken of granting, say, a five-year period to achieve this minimum, Bangladesh could be advised that, five years hence, exports to the United States will be permitted only if they are manufactured by workers earning a minimum of 38 cents an hour, a substantial but not impractical increase.

If we make similar calculations for Mexico, and assume that labor productivity in garment export industries was 65 percent of U.S. productivity in the mid-1980s, we could posit an acceptable minimum wage for Mexican export industries of $1.74—about three times its current level. This is not unlike what Mexico's minimum would have been had minimum rates been increasing with productivity (now growing at about 6 percent a year). In light of President Salinas's announcement that Mexican minimum wages should henceforth increase with productivity, requiring such a minimum, in gradual steps over several years, is entirely reasonable.

These figures are only illustrative, suggesting results that rigorous U.S. rulemaking might produce. This interpretation of Pease requirements would spur substantial increases in Bangladesh workers' purchasing power, without eliminating Bangladesh's opportunity to use its low-wage "comparative advantage" to attract investment. Concrete definitions of acceptable minimum rates, calculated for all our low-wage trading partners, could begin to reverse downward international spirals and stimulate rising wages of industrial nation and Third World workers in response to expanding markets and growing demand.

As an alternative approach, "acceptable" minimum wage levels might be estimated by examining the shares of the value-added in manufacturing that workers in various countries receive as earnings. Such calculations would address directly the excessive profits earned by First World importers on Third World labor exploitation. Other policy questions raised by our illustration include:

- Is it justifiable for Pease amendment interpretation to calculate acceptable minimum wages in U.S. dollars rather than Bangladesh taka? Perhaps so, since the purpose is to regulate U.S. market participation and to guide how developing nations can compete for access to that market without exacerbating the downward spiral. But categorization of nations based on income bands, for purposes of granting concessions, is a different matter. These categories should probably be established using per capita GNP not in exchanged dollars but in "purchasing power parity" dollars (which the IMF now calculates).

- Should calculations establish different acceptable minima industry by industry? Many nations have minimum wages which differ by industry, but if the goal is a process which is simple and transparent, such complexity by U.S. import control agencies should probably be avoided.

- Should these calculations be reviewed periodically as the U.S. minimum wage is adjusted and as the per capita incomes of various developing nations improve? Probably so.

An altogether different method might disregard unit labor costs and define acceptable minima for various nations based on a worker's cost for a typical "market basket" of food and other necessities. Perhaps the World Trade Organization (GATT's successor) should adopt this approach, but its apparent justice may hide complexities (like determining how many dependents a single minimum wage should be expected to support) more daunting than the unit labor cost method sketched above. While questions remain, the point of this exercise is to show that transparent wage rules can be established that take account of countries' wide-ranging levels of development. These rules are not "protectionist," are easier to implement than judgments about whether other legal systems afford meaningful rights to collective bargaining, and can potentially help reverse the international downward wage spiral. Most important, if such a regime enjoyed uniform international enforcement, no developing nation need fear loss of competitive advantage because neighbors were more willing to attract investment by undercutting universally accepted labor standards.

PROSPERITY THROUGH IMPROVERISHMENT

Most Third World governments and international development experts, reflecting conventional economic wisdom, are hostile to child labor prohibitions and minimum wage regulation. They consider such rules "protectionist"; they believe that labor exploitation is inherent to development, that wages rise as productivity increases, and that child labor disappears as national incomes grow to make schooling affordable.

Bangladesh officials now complain, for example, that prohibiting child labor could "force thousands of child workers into begging or prostitution." UNICEF's Bangladesh representative declared that the prospect of the Harkin-Brown amendment "has already done damage to children by evicting them from garments manufacturing facilities and depriving them of income." Dhaka social workers told the *Bangkok Post* that "50,000 children, mostly girls, could be left out of work and pushed into a life of crime" if Harkin-Brown passed.

Yet there is no evidence that labor standards necessarily improve with development. In Third World countries, IMF-inspired macroeconomic policies and competition for footloose international capital make real wages more likely to fall than rise with productivity gains. Many developing nations have deliberately suppressed wages and relaxed child labor rules in recent years, so unit labor costs fall even faster than productivity rises. From 1980 to 1989, Mexico's real manufacturing wages fell by 24 percent while industrial productivity (gross output per employee, including national and export-oriented industries) increased 28 percent. In Bangladesh, productivity grew by 20 percent, but wages did not rise.

In the *Harvard Business Review* last year, World Bank consultant David Lindauer reflected the development establishment's consensus apology for child labor:

> If [children] were not in the factory, they might be separated from their mothers and working as maids, or at home on consignment, or in local [non-exporting] carpet factories. Even worse, they might be begging or scavenging . . . .
>
> [We] cannot solve the problem of child labor in a poor country by prohibiting . . . contractors from hiring anyone under the age of 14 . . . It will not change the fundamental circumstances of the . . . labor market. . . .
>
> When wages and household incomes rise, families can afford not to require their children to work (or accompany their mothers to work). . . . With rising wages, companies also will be less likely to employ children. . .
>
> We know of no case where a nation developed a modern manufacturing sector without first going through a "sweat shop" phase. How long ago was it that children could be found working in the textile factories of Lowell, Massachusetts, of Manchester, England, or of Osaka, Japan? Should the developing countries of today be any different?

These arguments differ little from rationalizations by academic and industrial authorities in defense of Lowell sweatshops earlier this century. According to one mill owner's 1916 congressional testimony: "If you raise the limit to 15 or 16 you would simply exaggerate to a much larger extent the hardship that would be visited upon large numbers of people through the country who have had to contend with adverse conditions and upon whom God has laid poverty." Today's World Bank only substitutes for a deity the "fundamental circumstances of the labor market."

Conventional development theory assumes that child labor cannot reduce incomes because adults are more productive, so employers don't hire children unless adult workers command higher wages elsewhere and so are unavailable. If children work in the market economy, therefore, they cannot displace adults or drive down their wages; rather, family poverty must force children into factories to supplement household income.

This full employment assumption is fantasy. Claims that industrial opportunities for children protect them from worse fates are true for individual children only in the absence of uniform child labor prohibitions that open opportunities for their parents to earn a living wage. During the Great Depression, we recognized that child labor did not alleviate poverty but perpetuated it, because children worked while adults were unemployed. Adults could work only for pay sufficient to support families at subsistence, but children worked for less.

Where child labor is prevalent, it accompanies substantial adult unemployment. In Mexico, where 12 percent of children work, the official adult unemployment rate is only 2.9 percent, yet anyone working a minimum of one hour weekly, even informally, counts as "employed." Only 56 percent of Mexico's 24 million person labor force works for legal companies or government. Thus as many as 10 million Mexican adults may be seriously underemployed, equal to the number of children working.

Academic hostility to international labor standards also stems from failure to consider the induced capital-labor substitution, better training, and reduced turnover that higher standards permit. Instead, experts almost always predict that even modest minimum wage increases create unemployment and (for both the United States and developing nations) often are proved wrong. The simplistic notion that the cheapest labor is most efficient was disproved in the antebellum South, when plantation owners feared to entrust slaves with adequate tools because their use required training, self-direction, and motivation—attributes inconsistent with slavery. Twentieth century studies of Third World workers find that productivity increases when workers' pay grows to purchase the minimal caloric intake needed to perform adequately. In such circumstances, however, the productivity payoff is more distant than immediate costs of higher minimum wages, so only uniform international enforcement can induce employers to make the necessary investments.

In the United States, industrial wages began to increase and child labor was abolished, not as the evolutionary consequence of development, but after decades of bitter political conflict. A law prohibiting factory child labor was enacted in 1917 and declared unconstitutional by the Supreme Court. A second law taxing profits from child labor was also invalidated. Industrial codes of the New Deal's National Recovery Administration prohibited child labor; these were also struck down. In 1938, following 30 years of popular agitation, a tamed Court accepted the Fair Labor Standards Act, which prohibited factory child labor and enacted minimum wages.

There is, in short, neither contemporary nor historical evidence that an upward spiral naturally evolves. Some cite Korea as a nation where wages and thus consumption began to rise as industrialization matured. But worker rights did not evolve in Korea; they were seized in bloody street riots and a political revolution deposing military dictatorship.

All of these issues are finally on the global radar screen. President Clinton apparently wants to place a "global New Deal" on the international agenda. NAFTA's token labor agreement drew mostly contempt from labor rights advocates, but NAFTA was nonetheless the first trade agreement to legitimize international labor regulation. French leaders President Francois Mitterand, European Union President Jacques Delors, and Prime Minister Edouard Balladur now propose that access to European markets be conditioned on higher Third World wages. In January Mickey Kantor told EU External Affairs Minister Sir Leon Brittan that a post-Uruguay round of negotiations was needed on international labor standards. The following day, Clinton met with Delors. In a Brussels press conference, Clinton reported, "I suggested that the successor agenda to the Uruguay Round should include . . . labor standards. . . . If we're going to open our borders and trade more and invest more with developing nations, we want to know that their working people will receive some of the benefits. . . . Otherwise, they won't have increasing incomes, and they won't be able to buy our products and services."

Clinton's comments created controversy in Europe but went unreported at home. Sir Leon criticized American proposals as "a disguised form of protectionism," merely "fashionable and politically correct," but a month later, the European Parliament proposed including labor laws in the General Agreement on Tariffs and Trade. Clinton then reportedly accepted an invitation to attend in June the 75th anniversary Geneva convention of the International Labor Organization.

Whether multilaterally through the GATT, or unilaterally by enforcement of Pease or Harkin-Brown standards, policies to enforce acceptable minimum wage rates and prohibitions on child labor in developing economies' export sectors are appropriate and necessary. Such policies will retard the competitive gyre, where wages in all nations decline as each bids against the other for investment. Higher labor standards will encourage developing economies to invest in education, training, and technology to assure greater returns for labor investments. And higher standards will contribute to growth of worldwide final demand, so that both developing and industrialized nations have opportunities to pursue full employment policies.

Richard Rothstein